

REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND COUNCIL OF MHLONTLO LOCAL MUNICIPALITY

Introduction

1. I have audited the financial statements of Mhlontlo Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No 02 of 2013) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for adverse opinion

Property, Plant and Equipment

6. The municipality did not account for its property, plant and equipment in accordance with GRAP 17 – *Property, plant and equipment* as capital additions were incorrectly recognised as expenditure and depreciation of assets was incorrectly calculated. Consequently, property, plant and equipment as disclosed in note 8 to the financial statements was understated by R1,9 million, general expenses as disclosed in note 27 was overstated by R4,9 million, depreciation and amortisation as disclosed in note 22 was understated by R3 million.

7. In addition, I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment as assets could not be physically verified and supporting documentation was not provided for journals to correct the prior year cost price of infrastructure additions. In addition, the asset register did not reconcile to the underlying accounting records.
8. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to property, plant and equipment of R126 million (2013: R99,9 million) as disclosed in note 8 to the financial statements.

Intangible assets

9. The municipality did not capitalise items of intangible assets that met the recognition criteria contained in GRAP 102 – *Intangible Assets*. As a result, Intangible Assets as disclosed in note 9 was understated by R1,8 million and repairs and maintenance as disclosed on the statement of financial performance was overstated by the same amount.

Receivables from non-exchange transactions

10. Sufficient appropriate audit evidence was not available to support receivables from non-exchange transactions as disclosed in note 3 to the financial statements. I was unable to confirm the amount of receivables from non-exchange transactions even through alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to receivables from non-exchange transactions of R7 million.

VAT receivable

11. The municipality incorrectly accounted for expense items inclusive of VAT. As a result, VAT receivable as disclosed in note 4 was understated by R1,9 million, repairs and maintenance as disclosed on the statement of financial performance was overstated by R1 million, operating grant expenditure as disclosed in 26 was overstated by R0,5 million and general expenses as disclosed in note 27 is overstated by R0,4 million.

Inventory

12. The municipality did not disclose property held for resale as inventory in the financial statements as required by GRAP 12 - *Inventory*. Consequently, inventory and accumulated surplus were understated by the same amount. It was not possible to determine the costs of this inventory as supporting documentation was not available. While it was possible to determine an estimate of the above amount, it was not practicable to determine the current replacement cost of the inventory as required by GRAP 12. As a result, I was unable to determine the full impact of this misstatement on inventory and accumulated surplus of R135,6 million (2013: R144,5 million).

Payables from exchange transactions

13. The municipality did not correctly account for all payables, as required per GRAP 1 – *Presentation of financial statements*. Consequently payables from exchange transactions as disclosed in note 11 was understated by R1,9 million, property, plant and equipment as disclosed in note 8 was understated by R0,5 million and receivables from non-exchange transactions was understated by R0,7 million. Furthermore, general expenses as disclosed in note 27 was understated by R1 million and personnel expenditure as disclosed in note 20 was understated by R0,3 million. This was due to the municipality not recording all amounts payable and the amounts due to employees not being recognised even though an obligation exists to pay the amounts.

14. In addition, sufficient appropriate audit evidence was not available to support the amounts disclosed as salary control in note 11 which forms part of payables from exchange transactions. I was unable to confirm the disclosure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to salary control of R2,8 million as disclosed in note 11 to the financial statements.

Employee benefit obligation

15. The municipality did not account for employee benefits in accordance with GRAP 25 – *Employee benefits*. Consequently, the employee benefit obligation as disclosed in note 12 has been understated by R2,8 million and employee costs as disclosed in note 20 has been understated by the same amount. This was a result of the municipality not correctly applying the requirements of its Benefits and allowances policy when accruing for possible short term bonus payments and the municipality not correctly applying the requirements of its leave of absence policy when accruing for possible short term leave pay payments.
16. In addition, the municipality did not recognise a provision for long service awards as required by GRAP 25 – *Employee benefits* and did not disclose the reasons for the departure in the annual financial statements. Sufficient, appropriate audit evidence was not available to determine the full extent of the understatement of employee benefit obligation and employee costs. I was not able to confirm the amount of employee benefit obligation by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to employee benefit obligation of R4,7 million (2013: R3,6 million) as disclosed in note 12 to the annual financial statements.

Property rates

17. The municipality did not comply with the revenue recognition criteria as required by GRAP 23 – *Revenue from non-exchange transactions* as property rates were calculated using incorrect tariffs. Consequently, property rates as disclosed in note 18 to the financial statements is understated by R2,3 million (2013: R5 million) and consumer debtors as disclosed in note 5 is understated by the same amount.
18. In addition, I was unable to obtain sufficient, appropriate audit evidence for property rates as the reconciliation between the amount disclosed in note 18 and the underlying accounting records was not performed. I was unable to confirm the amount of property rates by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to property rates of R7,6 million as disclosed in note 18 to the financial statements.

Personnel expenditure

19. The municipality did not have adequate systems in place to maintain records of employee costs as salary increases effected during the year were not in accordance with the SALGBC collective agreement and overtime was not approved prior to it being worked. Consequently, employee costs as disclosed in note 20 is understated by R1,4 million, receivables from non-exchange transactions as disclosed in note 3 is understated by R4,8 million, payables from exchange transactions in note 11 is understated by R3,3 million and employee benefit obligation disclosed in note 12 is understated by R0,1 million.
20. In addition, I was unable to obtain sufficient appropriate audit evidence for employee costs as signed copies of employment contracts were not provided for audit purposes and sufficient appropriate audit evidence relating to allowances paid to employees and journal entries was not provided for audit purposes. I was unable to confirm employee costs by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to employee costs of R61 million (2013: R51,3 million) as disclosed in note 20 to the financial statements.

General expenses

21. I was unable to obtain sufficient appropriate audit evidence for general expenses as disclosed in note 27 to the financial statements as the municipality did not provide requested supporting documents to confirm the expenditure transactions recorded. I was unable to confirm the amount for expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to general expenditure of R58 million (2013: R34,1 million) as disclosed in note 27 to the financial statements.

Irregular expenditure

22. The municipality did not have adequate systems in place to identify and disclose all irregular expenditure incurred during the year as required by section 125(2)(d)(i) of the MFMA. The irregular expenditure disclosed in note 37 to the financial statements is understated in respect of amounts incurred during the year that were identified during the audit process of R16,8 million (2013: R54 million). Furthermore, the irregular expenditure disclosed in note 37 to the financial statements was incorrectly recorded resulting in the overstatement of the amount disclosed by R23 million.
23. Sufficient, appropriate audit evidence was not provided for a restatement of the opening balance of irregular expenditure of R46,7 million and irregular expenditure incurred in the prior year of R37,1 million. I was unable to confirm the irregular expenditure by alternative means. As a result, I was unable to determine whether any further adjustments were necessary to irregular expenditure of R192,9 million (2013: R96,2 million) as disclosed in note 37 of the financial statements.

Unauthorised expenditure

24. The municipality did not have adequate systems in place to identify and disclose all unauthorised expenditure incurred during the year as required by section 125(2)(d)(i) of the MFMA. Unauthorised expenditure as disclosed in note 31 to the financial statements is understated by R2,4 million in respect of expenditure that was not provided for in the approved budget. In addition, an overstatement of R7 million was identified between the amount disclosed on the statement of financial performance and note 31 to the financial statements.

Going concern

25. The municipality incurred a net loss of R8,9 million during the year ended 30 June 2014 and, as of that date, the municipality's current liabilities exceeded its total assets by R14,9 million. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern. This material uncertainty was not disclosed in the financial statements as required by GRAP 1 – *Presentation of financial statements*.

Prior period restatement disclosure and corresponding amounts

26. The municipality did not correctly account for all the restatements to corresponding figures as presented in note 35 to the financial statements, in accordance with the requirements of GRAP 3 – *Accounting policies, changes in accounting estimates and errors*. Consequently, the restated balances for prior period errors are understated by an aggregated amount of R2,5 million.

27. During the 2012-13 year, my report on the financial statements for the year ended 30 June 2013 was modified in respect of the matters, which remain uncorrected in the current year, listed below:

- Investment property as disclosed in note 7 was overstated by R1,4 million and accumulated surplus was understated by the same amount, as the municipality used the incorrect valuation method;
- Government grants and subsidies in note 19 was understated by R8,7 million, unspent conditional grants and receipts in note 13 was overstated by R3,7 million and accumulated surplus was overstated by R5 million;

I was unable to obtain sufficient appropriate audit evidence to confirm whether any adjustments were required to councillor remuneration of R13,3 million as disclosed in note 21 to the financial statements.

28. As a result, I was unable to determine whether any adjustments to these corresponding elements were necessary. My audit opinion on the financial statements for the period ended 30 June 2013 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of these matters on the comparability of the current period's figures.

Aggregation of immaterial uncorrected misstatements

29. The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items making up the statement of financial position and the statement of financial performance and the notes to the financial statements:

- Debt impairment of R1,7 million was understated by the same amount;
- Consumer debtors of R2,5 million was overstated by R1,7 million;
- The cash flow statement had a variance of R1,7 million;
- Operating leases is understated by R0,7 million;
- Provisions reflected as R8,1 million is understated by R0,5 million;
- Fruitless and wasteful expenditure is understated by R0,04 million.

30. In addition, I was unable to obtain sufficient appropriate audit evidence for contingent liabilities as disclosed in note 33 to the financial statements. I was unable to confirm the amount by alternative means. As a result, I was unable to determine whether any further adjustment to contingent liabilities of R1.3 million was necessary.

Adverse opinion

31. In my opinion, because of the significance of the matters described in the basis for adverse opinion paragraphs, these financial statements do not present fairly the financial position of Mhlontlo Local Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with GRAP and the requirements of the MFMA.

Emphasis of matter

32. I draw attention to the matters below. My opinion is not modified in respect of these matters

Restatement of prior period figures

33. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered during June 2013 in the financial statements of Mhlontlo Local Municipality at, and for the year ended, 30 June 2013.

Material Impairments and losses

34. As disclosed in note 3 to the financial statements, an amount of R0,5 million (2013: R0,5 million) in respect of receivables from non-exchange transactions has been impaired as a result of non-payment of these amounts.

35. As disclosed in note 5 to the financial statements, an amount of R19,2 million (2013: R17,5 million) in respect of consumer debtors has been impaired as a result of non-payment of these amounts.

Additional matter paragraph

36. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

37. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

38. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

39. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development objective presented in the annual performance report of Mhlontlo Municipality for the year ended 30 June 2014.

- Development objective: Basic Service Delivery and Infrastructure

40. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

41. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National

Treasury's *Framework for managing programme performance information* (FMPPI).

42. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
43. The material findings in respect of the selected development objective are as follows:

Basic Service Delivery and Infrastructure

Usefulness of reported performance information

Basis 1: Consistency of objectives, indicators and targets

Reported objectives, indicators and targets not consistent with planned objectives, indicators and targets

44. Section 41(c) of the Municipal Systems Act requires the Integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 32% of the reported objectives, indicators and targets were not consistent with those in the approved integrated development plan. This was due to inadequate reviews performed prior to submission of the annual performance report.

Changes to objectives, indicators and targets not approved

45. Section 25(2) of the Municipal Systems Act determines that an Integrated Development Plan adopted by a municipal council may be amended in accordance with the process as prescribed per section 34 of the Municipal Systems Act, and that such a plan remains in force until an Integrated Development Plan is adopted by the next elected council. Material changes were made to the development priorities objectives, indicators and targets in the annual performance report, without adoption by the municipal council. This was due to unexplained inconsistencies in the documentation of planned indicators and targets.

Basis 2: Measurability of indicators and targets

Performance targets not specific, measurable and well defined

46. The FMPPI requires the following:
 - Performance targets must be measurable. We could not measure the reported performance for 97% of the targets.
 - Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. Significantly important indicators in relation to Provision of Land and compliance with NHBR Act were not well defined.
 - Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 42% of the targets were not specific.

Reliability of reported performance information

Basis 1: Reliability of reported performance information

47. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of technical indicator descriptions for the accurate measurement, recording and monitoring of performance.

Additional matters

48. I draw attention to the following matters:

Achievement of planned targets

49. Refer to the annual performance report on pages ... to ... for information on the achievement of the planned targets for the year.

Adjustment of material misstatements

50. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for Basic Service Delivery and Infrastructure. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

51. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Budget

52. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Annual report and annual financial statements

53. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Some material misstatements identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving an adverse audit opinion.

Audit committee

54. The audit committee did not advise the council on matters relating to internal financial control and internal audits, risk management as required by section 166(2)(a) of the MFMA.
55. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.
56. The audit committee did not review the municipality's performance management system and make recommendations to the council, as required by Municipal planning and performance management regulation 14(4)(a)(ii).
57. The audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal planning and performance management regulation 14(4)(a)(iii).

Expenditure management

- 58. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
- 59. An effective system of expenditure control including procedures for the authorisation of funds was not in place as required by section 65(2)(a) of the MFMA.

Revenue management

- 60. A credit control and debt collection policy was not implemented, as required by section 96(b) of the Municipal Systems Act and section 62(1)(f)(iii) of MFMA.
- 61. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
- 62. Revenue due to the municipality was not calculated on a monthly basis, as required by section 64(2)(b) of the MFMA.

Asset management

- 63. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
- 64. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Liability management

- 65. A guarantee was issued for the debts of employees without approval by the municipal council, in contravention of section 50(b) of the MFMA.
- 66. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA.

Consequences management

- 67. Unauthorised, irregular, fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

Human resources management

- 68. An acting municipal manager and CFO was appointed for a period of more than six months in contravention of section 54A (2A) of the MSA.
- 69. The municipality did not submit a report on compliance with prescribed competency levels to National Treasury and the relevant provincial treasury as required by the Regulations on Minimum Competency Levels, regulation 14(2)(a).
- 70. The accounting officer does not have the higher education qualification as required by section 83 of the MFMA and regulation 2 and 3 of Municipal Regulations on Minimum Competency Levels.
- 71. The accounting officer did not meet any of the prescribed competency areas as required by section 83 of the Municipal Finance Management Act and regulation 2 and 3 of the Municipal Regulations on Minimum Competency Levels.
- 72. The chief financial officer did not have the higher education qualification as required by section 83 of the Municipal Finance Management Act and regulation 4 and 5 of the Municipal Regulations on Minimum Competency Levels.

73. The chief financial officer did not meet all of the prescribed competency areas as required by section 83 of the Municipal Finance Management Act and regulation 4 and 5 of the Municipal Regulations on Minimum Competency Levels.
74. Finance officials at middle management did not meet any of the prescribed competency areas as required by regulation 8 and 9 of the Municipal Regulations on Minimum Competency Levels.
75. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor measure and evaluate performance of staff in contravention of MSA sec 67(d).
76. The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements as required by section 57(2)(a) of the MSA.

Strategic planning and performance

77. The integrated development plan (IDP) was not reviewed based on changing circumstances, as required by section 34 of the MSA and Municipal planning and performance management regulation 3 and 11.
78. The performance management system did not provide for steps of improvement where performance targets were not met, as required by section 41(1)(d) of the MSA.
79. The annual performance report for the year under review did not adequately include a comparison of the performance with set targets and a comparison with the previous financial year as required by section 46(1)(b) of the MSA.
80. The annual performance agreements for the municipal manager and all senior managers are not linked to the measurable performance objectives approved with the budget and to the service delivery budget implementation plan as required in terms of section 53(1)(c)(iii) of the MFMA and section 57(1)(b) of the MSA.
81. The performance management system and related controls were not maintained as it did not describe and represent the processes of performance monitoring, measurement, review and how it is conducted, as required by sections 38 of the MSA and regulation 7 of the Municipal planning and performance management regulations.

Procurement and contract management

82. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM Regulations 17(a) and (c).
83. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids as required by SCM Regulation 19(a).
84. Awards were made to providers who are in the service of other state institutions or whose directors, principal shareholders are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulations 44.
85. Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) in accordance with section 18(1) of the CIDB Act, 2000 (Act No. 38 of 2000).

Internal control

86. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for adverse opinion, the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

Leadership

87. There has been no consistency of leadership within the municipality. As a result there was a failure to exercise oversight responsibility regarding the monitoring of internal controls over financial reporting, performance against pre-determined objectives and compliance with applicable laws and regulations. This has resulted in findings on matters that could have been prevented, and material misstatements in the annual financial statements as well as information presented in the report on predetermined objectives not being valid, accurate and complete.
88. Additionally, although policies and procedures have been developed, management have failed to adequately communicate these to employees in order to support the understanding and execution of internal control objectives, processes, and responsibilities. Employees and management are also not held accountable for failure to adhere to set policies and procedures for both financial and performance management.
89. Management has failed to monitor the implementation of action plans to address internal control deficiencies. The failure to respond adequately to prior year external audit findings has also resulted in a number of repeat audit findings.

Financial and performance management

90. The municipality remains reliant on the use of consultants to perform functions that should be performed by the staff employed by the municipality. A poor control environment exists over daily and monthly processing and reconciliation of transactions as manual reconciliation of accounting records and supporting schedules for various balances was performed at year end due to these controls not being performed on a regular ongoing basis during the year.
91. Information requested for audit purposes was obtained after significant delays, and in some instances, the supporting documents were not obtained. This was due to weaknesses identified in the record keeping of the municipality in that recorded transactions do not always have adequate supporting documentation, or the supporting documentation is not readily available for audit purposes.
92. The financial statements submitted for audit purposes contained numerous misstatements, as a result of a lack of adequate review of the financial statements and supporting documentation prior to submission of the annual financial statements for audit purposes. Should adequate monitoring, supervision and controls be implemented, these misstatements should be able to be identified and corrected by management on a timely basis.
93. The systems or processes for the preparation and reporting of performance against predetermined objectives are not adequate or sufficient as the municipality does not comply with the reporting requirements as prescribed by National Treasury.

Governance

94. The entity has failed to implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
95. Although the municipality has an audit committee and internal audit unit in place, and the audit committee held regular meetings as required by the MFMA, the audit committees' effectiveness has been limited due to the late submission of reports for their review

Auditor-General.

East London

30 November 2014



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence